

USAID/CAUCASUS - AZERBAIJAN

ANNUAL REPORT PART II

FY 2002

Please Note:

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Part III: Performance Narrative

A. Challenges

Despite macroeconomic stabilization, significant investment in the oil and gas sectors, and a highly educated population, Azerbaijan faces widespread unemployment and poverty, particularly in rural areas. Occupying a key geo-strategic position, Azerbaijan is a critical link in the East-West corridor and a vital connection in the trans-Caspian energy export system. However, a lack of freedom of expression, an inadequate economic reform program, and the absence of an enabling legal and regulatory environment have distorted the economic and social impact of the oil revenue to date. Rampant corruption and low living standards, especially for those displaced by the conflict over Nagorno-Karabakh, mean that there is ample fuel for social unrest. Although much of the urban sector, dominated by the oil industry, government and a few big businesses, has fared fairly well, limited opportunities and under-investment in public services for the rural poor leave much of the population fragmented and vulnerable. According to World Bank statistics, *per capita* GDP in Azerbaijan totaled \$664, placing it 98th among the 189 countries of the world. The average daily wage of working people amounted to a meager \$1.53 a day.

Nonetheless there are some significant signs of progress at the micro level. A nascent micro- and small business sector is taking root. Strong support from western countries and international donors has helped establish maturing business associations and a growing NGO community, thus laying the foundation for advocacy and political and economic reform. The Government of Azerbaijan (GOAJ) and major donors recognize that accelerating the growth of private enterprise is a top priority for reducing poverty.

Compliance with Section 907 of the FREEDOM Support Act continued to limit the potential impact of the USAID program. However, using a one-pronged, grassroots approach, some significant results were achieved. Direct support for SMEs and related business associations has resulted in the introduction of new domestic products and the opening of new markets. With an operating environment more conducive for NGOs, micro and SME lending got back on track. The less restrictive environment has also allowed other NGOs to more effectively galvanize civil society to advocate for meaningful change. Assistance to IDPs and IDP communities has created sustainable jobs and businesses for some of the most vulnerable, increasing economic opportunities and reducing the potential for conflict. Significant strides have been made in moving from pure humanitarian assistance to a longer-term development program. Using a participatory community development approach, targeted communities have organized and mobilized with a strengthened capacity to address self-defined needs.

The Presidential waiver of Section 907 signed in January 2002 will allow USAID to add a critical dimension to its assistance program. Most significantly, current activities supporting private sector development will be greatly enhanced by the ability to work directly with the GOAJ on needed policy reform, especially as it affects rural development. Assistance to the financial sector in implementing international accounting standards is expected to result in increased efficiency and transparency. Legal and regulatory reform supporting leasing and collateralized lending would effectively reduce constraints to credit that currently hamper business development. Operating under a waiver to Section 907, USAID will have the opportunity to foster changes in the present government's questionable political will, inadequate administrative and management capacity, and endemic corruption.

B. Program Performance

S.O. 1.3: Accelerated Development and Growth of Private SMEs in Targeted Areas

Having been precluded from providing direct assistance to the Government of Azerbaijan through CY 2001, USAID activities under this S.O. have focused on the development of private sector enterprises – creating economic opportunities for private business through expanding access to credit, providing business training and consulting services, and organizing professional business associations. A particular emphasis is placed on the agricultural sector, which is the sole source of income for the majority of Azeris.

Overall, S.O. 1.3 programs met expectations in FY 2001. Significant progress has been made in the development of key agricultural sectors, including dairy and hazelnut production. The formation of regional and national associations has given rural producers a vehicle for cooperation, information exchange, and advocacy. Training, consulting, and credit programs, particularly in border regions, have facilitated greater cross-border trade, helping mitigate conflict in this volatile area. Though USAID credit programs exceeded expectations for 2001, the cumulative total is still below the target because of registration difficulties our partners faced in 2000. With those problems solved, lending activity is increasing rapidly and we expect that the targets set for FY 2002 will be achieved.

Achievements

Business Development: USAID's activities led to a significant increase in the number of enterprises entering new markets. A total of 140 enterprises entered new markets in 2001, far exceeding our target. Beneficiary enterprises developed a total of 466 new products and services under USAID programs in 2001. Twelve business support associations have been started, up from five last year, and again exceeding the target. This includes two processor associations (hazelnut and dairy) with fifty member businesses and ten producer associations with over 600 individual members. These associations work to bring consistent quality and safety standards to their products and improve the image of Azeri products in domestic and world markets. Trade is beginning to break out of traditional markets, exemplified by the recently formed trade partnership between the Hazelnut Producers Association and a German firm.

Agriculture: USAID has continued to provide farmers with training and technical assistance in their efforts to increase agricultural yields and boost production levels. Over 500 dairy farmers in rural areas received training in livestock nutrition, reproduction, parasite control, and quality milk and cheese production. These activities have resulted in increased milk yields and quality, improved herd health, and improved access to information on agricultural best practices.

Micro/SME Credit: By providing credit to Azerbaijani enterprises, USAID is helping to alleviate one of the largest constraints to the growth of private businesses. USAID operates three credit programs in Azerbaijan, each focusing on different borrowing groups. Overall, USAID provides credit in amounts ranging from \$100 to \$100,000 in eleven regions of the country. In several of these regions, USAID is the only source of credit available to private businesses, particularly to micro and small businesses. In total, USAID programs have provided over \$2 million in loans to over 1,400 individuals and boast a repayment rate over 98%. With the NGO registration issue resolved, lending should continue at expected levels, allowing credit institutions to address organizational and financial sustainability of the credit operations.

S.O. 2.1: Civil Society Better Organized and Represented

USAID's Civil Society programs continued to make inroads into the strengthening and professional development of media outlets, journalists, advocacy-minded NGOs, lawyers, political parties and, where 907 carve-outs allowed, government representatives including judges and

municipal councils. The 2001 program also contributed to peace-building initiatives through the popular television series "Space Bridges" that linked Armenia and Azerbaijan.

Overall, the Civil Society S.O. met its targets in FY 2001. However, though targets were met, restrictions on press freedom remain, constituting major barriers to a better informed, politically active citizenry and to the democratic process more broadly. In addition, the policy, legal, and regulatory environment places serious constraints on the development of civic organizations and opposition political parties. Rarely do civil society organizations focus on constituency building and public awareness, particularly beyond Baku. Political parties tend to focus on elections, rather than on the political process that takes place between elections, such as platform development based on local issues, constituency development, and smaller/non-national elections. Both groups operate with weak internal structures and without longer-term strategies.

Achievements

Independent Media: The independent media program targeted the professional development of journalists and media outlets, media advocacy and legislation, media association support, regional linkages and peace-building, and increased varied access to high quality news and information programs (radio, television and print). Television programming included some 143 productions, including "Space Bridges", a weekly-televized exchange between Armenia and Azerbaijan that promoted mutual understanding and tolerance. The program reached an estimated 5 million viewers in the two countries, and initiated lively public dialogue. Additionally, the media activity advocated for, and contributed to the drafting of, the new law on mass media and the development of the draft law on public broadcasting. The activity was also a strong supporter of the issuance of licenses for independent media sources. It is anticipated that in FY 2002, the long battle for licenses and frequencies for five rural television stations will end successfully. This will be considered an important victory for the dissemination of non-state controlled information.

Political and Civic Organizations: In FY 2001, USAID provided technical assistance, training, and grants to some 180 civic organizations and to four of the major political parties in Azerbaijan. This assistance aided these groups to strengthen their organizational structures, internal management, strategic planning, advocacy and voter/constituency building capabilities. Election support was also provided to the political parties, preparing them for parliamentary elections of November 2000 and January 2001. The civic organizations were aided in developing a core group of qualified domestic monitors and gender equity. In total, some 1,055 individuals received training and technical assistance, including 337 females and 718 males. Though annual targets were exceeded, the real work remains in institutionalizing the skills provided and transferred. Additionally, there remains a real challenge to raise the public's awareness and understanding of the role that civic organizations play in the development of civil society, and the benefits of a viable and well functioning multi-party system of the supported organizations.

Rule of Law: Though 907 restrictions prevented direct support to the government, targets were met through a series of public information and professional development programs. The programs focused on: increasing public knowledge of their legal rights, reforms and laws in place; the development of rule of law organizations; providing legal commentary on draft laws/regulations; supporting clinical legal education courses at non-state universities; and the professional development of judges and lawyers. Significant impact was made in this area through the expansion of a popular legal information center to allow for more users of its critical resources. The legal information center is open to the general public and legal professionals, alike. Almost twice the target of 550 individuals was provided with training and technical support; 27% of the trainees were women. With the waiver of 907 restrictions for CY 2002, the rule of law program will likely expand to work directly with the government on transparency, accountability, an independent judiciary, and strengthened judicial institutions.

Electoral Process: USAID worked with the Central Election Commission (CEC) of Azerbaijan to pursue legal, regulatory, institutional and procedural reforms that provide for greater professionalism, efficiency, and transparency of the election administration process and public confidence in the legitimacy of election results. Assistance to the CEC focused on strengthening its internal training capacity and the professional development of the election administrators. In total, just over 1,400 individuals participated in these support programs.

112-031: Reduced Human Suffering in Conflict-Affected Areas

The activities under this strategic objective are broadly broken down into the areas of humanitarian assistance and health. The humanitarian assistance program, implemented through sub-grants to U.S. PVOs, is designed to address the needs of the most vulnerable of the Azerbaijan population, especially the IDPs and refugees, through economic opportunity, community development, health, and social investment initiatives. In addition to community health initiatives, the health program contains three hospital partnerships that focus on upgrading skills and providing health commodities to the Azerbaijan partner.

This strategic objective met its planned targets for FY 2001. Significantly, the humanitarian assistance program embraced a transitional approach from basic relief to longer-term sustainable economic development through programs aimed at the private sector. Resettlement of IDPs and refugees with the normal resident population not only helps in conflict resolution, but also enhances understanding of issues affecting their lives. Bringing IDPs and refugees into the mainstream of the society and economy will help create more sustainable economic opportunities while establishing an environment that encourages greater self-reliance. The community mobilization development approach made major strides in strengthening community involvement and capacity through participation and leadership development, while leading to rehabilitated community economic and social infrastructure.

Achievements

Humanitarian Response: USAID-funded grantees provided assistance primarily to IDPs, refugees and other vulnerable groups to create opportunities for better living conditions, improved health, and increased income. The economic opportunity activities provided training for 7,621 clients, while 3,515 clients (1,701 women) received loans and 2,955 jobs were created. Primary health care service was provided to IDP patients through almost 107,000 patient visits. Under community development initiatives, 84 communities were mobilized and 198 community projects were completed. The community development projects emphasized local capacity building and participatory methods and practices. Community mobilization is having a positive impact in the areas served. Community commitment is demonstrated by a 32% community contribution towards the implemented micro-projects, higher than the planned 25%.

Health: In addition to the primary health care activities implemented under the humanitarian assistance programs, USAID implements three health partnerships with AIHA. These three partnerships are designed to improve the quality of health services. During FY 2001, 150 health professionals were trained through the three partnerships in areas ranging from neonatal resuscitation, to improving education and care in the area of breast health, to primary care nursing skills. As a result of the training and skills acquired, Azeri physicians and nurses are now able to offer additional services. This improvement is especially evident in the health care now offered by visiting or area physicians/nurses to IDPs and refugees.

Table 1: Annual Report Selected Performance Measures

December 3, 2001

Indicator (all data should pertain to FY or CY 01)		OU Response			Fund Account	Data Quality Factors
Pillar I: Global Development Alliance: GDA serves as a catalyst to mobilize the ideas, efforts, and resources of the public sector, corporate America and non-governmental organizations in support of shared objectives						
1	Did your operating unit achieve a significant result working in alliance with the private sector or NGOs?	Yes	No X	N/A		
2	a. How many alliances did you implement in 2001? (list partners) b. How many alliances do you plan to implement in FY 2002?	0 NONE				
3	What amount of funds has been leveraged by the alliances in relationship to USAID's contribution?					
Pillar II: Economic Growth, Agriculture and Trade: USAID works to improve country economic performance using five approaches: (1) liberalizing markets, (2) improving agriculture, (3) supporting microenterprise, (4) ensuring primary education, and (5) protecting the environment and improving energy efficiency.						
4	If you have a Strategic Objective or Objectives linked to the EGAT pillar, did it/they exceed, meet, or not meet its/their targets?	Exceed	Met X	Not Met		
USAID Objective 1: Critical, private markets expanded and strengthened						
5	Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 2: More rapid and enhanced agricultural development and food security encouraged						
6	Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 3: Access to economic opportunity for the rural and urban poor expanded and made more equitable						
7	Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes X	No	N/A		

Indicator (all data should pertain to FY or CY 01)	OU Response			Fund Account	Data Quality Factors
USAID Objective 4: Access to quality basic education for under-served populations, especially for girls and women, expanded					
8 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No	N/A X		
9 a. Number of children enrolled in primary schools affected by USAID basic education programs (2001 actual) b. Number of children enrolled in primary schools affected by USAID basic education programs (2002 target)	Male	Female	Total		
USAID Objective 5: World's environment protected					
10 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No	N/A X		
11 a. Hectares under Approved Management Plans (2001 actual) b. Hectares under Approved Management Plans (2002 target)					
Pillar III: Global Health: USAID works to: (1) stabilize population, (2) improve child health, (3) improve maternal health, (4) address the HIV/AIDS epidemic, and (5) reduce the threat of other infectious diseases.					
12 If you have a Strategic Objective or Objectives linked to the Global Health pillar, did it/they exceed, meet, or not meet its/their targets?	Exceed	Met X	Not Met		
USAID Objective 1: Reducing the number of unintended pregnancies					
13 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 2: Reducing infant and child mortality					
14 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		

Indicator (all data should pertain to FY or CY 01)	OU Response			Fund Account	Data Quality Factors
USAID Objective 3: Reducing deaths and adverse health outcomes to women as a result of pregnancy and childbirth					
15 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 4: Reducing the HIV transmission rate and the impact of HIV/AIDS pandemic in developing countries					
16 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 5: Reducing the threat of infectious diseases of major public health importance					
17 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
Pillar IV: Democracy, Conflict and Humanitarian Assistance					
18 If you have a Strategic Objective or Objectives linked to the Democracy, Conflict and Humanitarian Assistance Pillar, did it/they exceed, meet, or not meet its/their targets?	Exceed	Met X	Not Met		
USAID Objective 1: Rule of law and respect for human rights of women as well as men strengthened					
19 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 2: Credible and competitive political processes encouraged					
20 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 3: The development of politically active civil society promoted					
21 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 4: More transparent and accountable government institutions encouraged					
22 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No X	N/A		
USAID Objective 5: Conflict					

Indicator (all data should pertain to FY or CY 01)	OU Response			Fund Account	Data Quality Factors
23 Did your program in a pre-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No	N/A X		
24 Did your program in a post-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?	Yes X	No	N/A		
25 Number of refugees and internally displaced persons assisted by USAID	Male 102,960	Female 126,575	Total 229,535		
USAID Objective 6: Humanitarian assistance following natural or other disasters					
26 Did your program achieve a significant result in the past year that is likely to contribute to this objective?	Yes	No	N/A X		
27 Number of beneficiaries					

Table 2: Selected Performance Measures for Other Reporting Purposes

The information in this table will be used to provide data for standard USAID reporting requirements

Indicator (all data should pertain to FY or CY 01)		OU Response		Fund Account	Data Quality Factors
Child Survival Report					
Global Health Objective 1: Reducing the number of unintended pregnancies					
1	Percentage of in-union women age 15-49 using, or whose partner is using, a modern method of contraception at the time of the survey. (DHS/RHS)				
Global Health Objective 2: Reducing infant and child mortality					
2	Percentage of children age 12 months or less who have received their third dose of DPT (DHS/RHS)	Male	Female	Total	
3	Percentage of children age 6-59 months who had a case of diarrhea in the last two weeks and received ORT (DHS/RHS)	Male	Female	Total	
4	Percentage of children age 6-59 months receiving a vitamin A supplement during the last six months (DHS/RHS)	Male	Female	Total	
5	Were there any confirmed cases of wild-strain polio transmission in your country?				
Global Health Objective 3: Reducing deaths and adverse health outcomes to women as a result of pregnancy and childbirth					
6	Percentage of births attended by medically-trained personnel (DHS/RHS)				
Global Health Objective 5: Reducing the threat of infectious diseases of major public health importance					
7	a. Number of insecticide impregnated bed-nets sold (Malaria) (2001 actual) b. Number of insecticide impregnated bed-nets sold (Malaria) (2002 target)				
8	a. Proportion of districts implementing the DOTS Tuberculosis strategy (2001 actual) b. Proportion of districts implementing the DOTS Tuberculosis strategy (2002 target)				

HIV/AIDS Report

Global Health Objective 4: Reducing the HIV transmission rate and the impact of HIV/AIDS pandemic in developing countries

<p>a. Total condom sales (2001 actual)</p> <p>9</p> <p>b. Total condom sales (2002 target)</p>					
<p>a. Number of individuals treated in STI programs (2001 actual)</p> <p>10</p> <p>b. Number of individuals treated in STI programs (2002 target)</p>	Male	Female	Total		
<p>a. Is your operating unit supporting an MTCT program?</p> <p>11</p> <p>b. Will your operating unit start an MTCT program in 2002?</p>					
<p>a. Number of individuals reached by community and home based care programs (2001 actual)</p> <p>12</p> <p>b. Number of individuals reached by community and home based care programs (2002 target)</p>	Male	Female	Total		
<p>a. Number of orphans and vulnerable children reached (2001 actual)</p> <p>13</p> <p>b. Number of orphans and vulnerable children reached (2002 target)</p>	Male	Female	Total		
<p>a. Number of individuals reached by antiretroviral (ARV) treatment programs (2001 actual)</p> <p>14</p> <p>b. Number of individuals reached by antiretroviral (ARV) treatment programs (2002 target)</p>	Male	Female	Total		

Victims of Torture Report						
Democracy, Conflict, and Humanitarian Assistance Objective 7: Providing support to victims of torture						
15	Did you provide support to torture survivors this year, even as part of a larger effort?	NO				
16	Number of beneficiaries (adults age 15 and over)	Male	Female	Total		
17	Number of beneficiaries (children under age 15)	Male	Female	Total		

Global Climate Change			
USAID Objective 5: World's environment protected			
18	Global Climate Change: See GCC Appendix		

Part IV. Results Framework

S.O. 1.3: Accelerated Growth and Development of Private Small and Medium Enterprises in Targeted Areas

- IR 1.3.1: Increased Access to Production Inputs
- IR 1.3.2: Increased Access to Credit
- IR 1.3.3: Increased Market Responsiveness of Enterprises
 - IR 1.3.3.1: Improved Enterprise Business, Technical and Marketing Skills
 - IR 1.3.3.2: Increased Adoption of Grades and Standards
 - IR 1.3.3.3: Improved Access to Market Information
- IR 1.3.4: Private Membership Associations Organized
- IR 1.3.5: Improved Policy/Legal/Regulatory Environment and Physical Infrastructure Supporting Small and Medium Enterprises

S.O. 2.1: Civil Society Better Organized and Represented

- IR 2.1.1: Issue-based Formal and Informal Associations or Advocacy Groups Organized and Active
 - IR 2.1.1.1: Improved Capacity for Public Outreach and Advocacy
 - IR 2.1.1.2: Improved Organizational Management
- IR 2.1.2: Legal and Policy Advocacy Environment Supports Civil Society and Media Development
 - IR 2.1.2.1: Increased Professionalism of Civil/Human Rights Lawyers and Judges
 - IR 2.1.2.2: Adoption and Implementation of Key Laws and Policies in Accordance with International Standards
 - IR 2.1.2.3: Increased Public Awareness of Legal, Policy & Political Advocacy Framework
- IR 2.1.3: Increased Access to Objective/Varied Information
 - IR 2.1.3.1: Increased Professionalism of Media
 - IR 2.1.3.2: Increased Regional Media Linkages

S.O. 3.1: Reduced Human Suffering in Conflict-Affected Areas

- IR 3.1.1: Vulnerable Communities Better Able to Meet Their Own Needs
 - IR 3.1.1.1: Increased Access to Economic Opportunities and Support Services
 - IR 3.1.1.2: Communities Organized to Address Self-Defined Needs
 - IR 3.1.1.3: Communities Have Access to Better Quality Services

Part VII: Environmental Compliance

A. Current Activities

All current activities are in compliance with their approved Initial Environmental Examinations (IEEs), Categorical Exclusions, and Environmental Assessment. IEEs at the Strategic Objective level include most assistance anticipated through FY2003, the last year of the current strategic plan for Azerbaijan.

B. New and Extended Activities

Listed below are the new and amended IEEs anticipated for FY2002, along with the planned completion dates. All IEEs will be at the SO level. For the most part categorical exclusions are anticipated.

1. SO2.1 – Expanded activities in NGO development and development of an independent media will require an amendment to the IEE for SO2.1. (May 2002)
2. SO1.3 – New activities in financial sector assistance; rural enterprise development; business development. (April 2002).
3. SO3.1 – New activity in community mobilization (March 2002).
4. SO3.1 – New activity in family planning (August 2002).